



# **Inkosi Langalibalele**

Inkosi Langalibalele Municipality  
Annual Financial Statements  
for the year ended 30 June 2019

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## General Information

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### Mayoral committee

Mayor

Ms. J M Mbhele

Councillors

Mr. S A Mdakane - Speaker & Ward 4 Councillor

Mr. B A Dlamini - Deputy Mayor & EXCO Member

Mr. N E Mazibuko - Chief Whip & PR Councillor

Mr. M B A Khanyile - EXCO Member & PR Councillor

Mr. B P Mlotshwa - EXCO Member & PR Councillor

Mr. M C Mkhize - EXCO Member & Ward 16 Councillor

Mr. E M Majola - EXCO Member & PR Councillor

Ms. M D Mazibuko - EXCO Member & PR Councillor

Ms. X Mokadi - EXCO Member & PR Councillor

Ms. E Lite - EXCO Member & Ward 10 Councillor

Ms. P P Mgaga - Ward 1

Mr. N F Dlangalala - Ward 2

Mr. B N Mpembe - Ward 3

Mr. S E Mbongwa - Ward 5

Mr. E S Ndumo - Ward 6

Mr. T M Mvelase - Ward 7

Mr. B T Mngadi - Ward 8

Mr. B S Dladla - Ward 9

Mr. B E Nkala - Ward 11

Mr. S B Zondi - Ward 12

Mr. L M Mlaba - Ward 13

Mr. S P Vilakazi - Ward 14

Mr. T P Dubazane - Ward 15

Mr. N Mvelase - Ward 17

Mr. S V Ndwandwe - Ward 18

Mr. S N Mchunu - Ward 19

Mr. M M Mncube - Ward 20

Mr. B Dhladla - Ward 21

Mr. L M Mvelase - Ward 22

Mr. P B Mngadi - Ward 23

Ms. T P Shelembe - PR

Mr. U Chetty - PR

Mr. N E Sithole - PR

Ms. G E Mbhele - PR

Mr. S W Khumalo - PR

Mr. K A Vilakazi - PR

Mr. M A Zulu - PR

Ms MW Lutuli - PR

Mr. S M Mbhele - PR

Ms. S F Khumalo - PR

Ms. Y N Dlamini - PR

Ms. N M Hlongwane - PR

Ms. T O Shandu - PR

Ms. Z P Sikhosana - PR

Mr. M M Nkala - PR

Mr. SS Mzimela - PR

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## General Information

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|                                    |                                                           |
|------------------------------------|-----------------------------------------------------------|
| <b>Grading of local authority</b>  | Grade 3                                                   |
| <b>Chief Finance Officer (CFO)</b> | Mr S Radebe                                               |
| <b>Accounting Officer</b>          | Mr. P S Mkhize                                            |
| <b>Registered office</b>           | Civic Building<br>Victoria Street<br>Estcourt<br>3310     |
| <b>Postal address</b>              | P.O. Box 15<br>Estcourt<br>3310                           |
| <b>Bankers</b>                     | First National Bank                                       |
| <b>Auditors</b>                    | Auditor General of South Africa                           |
| <b>Attorneys</b>                   | Xaba Attorneys<br>PKX Attorneys<br>Gcolotela & Peter Inc. |

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

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|         |                                                                   |
|---------|-------------------------------------------------------------------|
| COIDA   | Compensation for Occupational Injuries and Diseases               |
| CRR     | Capital Replacement Reserve                                       |
| DBSA    | Development Bank of South Africa                                  |
| GRAP    | Generally Recognised Accounting Practice                          |
| HDF     | Housing Development Fund                                          |
| CIGFARO | Chartered Institute of Government Finance Audit and Risk Officers |
| MEC     | Member of the Executive Council                                   |
| MFMA    | Municipal Finance Management Act                                  |
| MIG     | Municipal Infrastructure Grant (Previously CMIP)                  |
| GAMAP   | Generally Accepted Municipal Accounting Practice                  |

# **Inkosi Langalibalele Municipality**

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the municipality sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on income from Services Charges, Property Rates and Grant Funding for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Inkosi Langalibalele Municipality has neither the intention nor the need to curtail materially the scale of the municipality.

The annual financial statements set out on pages 5 to 59, which have been prepared on the going concern basis, were presented to Council on 29 August 2019 and were signed on its behalf by:

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**Mr. P S Mkhize**  
**Accounting Officer**

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

| Figures in Rand                            | Note(s) | 2019                 | 2018<br>Restated*    |
|--------------------------------------------|---------|----------------------|----------------------|
| <b>Assets</b>                              |         |                      |                      |
| Current Assets                             |         |                      |                      |
| Inventories                                | 7       | 15 338 165           | 10 262 612           |
| Receivables from exchange transactions     | 8       | 47 605 846           | 115 768 744          |
| Receivables from non-exchange transactions | 9       | 95 444 625           | 72 051 264           |
| VAT receivable                             | 10      | -                    | 21 123 946           |
| Cash and cash equivalents                  | 11      | 25 348 941           | 5 968 586            |
|                                            |         | <b>183 737 577</b>   | <b>225 175 152</b>   |
| Non-Current Assets                         |         |                      |                      |
| Investment property                        | 2       | 92 502 348           | 92 502 348           |
| Property, plant and equipment              | 3       | 720 691 372          | 734 019 830          |
| Intangible assets                          | 4       | 47 312               | 58 551               |
| Heritage assets                            | 5       | 9 245 875            | 9 245 875            |
|                                            |         | <b>822 486 907</b>   | <b>835 826 604</b>   |
| <b>Total Assets</b>                        |         | <b>1 006 224 484</b> | <b>1 061 001 756</b> |
| <b>Liabilities</b>                         |         |                      |                      |
| Current Liabilities                        |         |                      |                      |
| Financial liabilities                      | 14      | 1 243 415            | 1 494 132            |
| Finance lease obligation                   | 12      | 382 908              | 515 370              |
| Payables from exchange transactions        | 16      | 137 910 894          | 142 532 613          |
| VAT payable                                | 17      | 39 667 335           | -                    |
| Consumer deposits                          | 18      | 4 902 667            | 4 794 618            |
| Unspent conditional grants and receipts    | 13      | 7 155 609            | 16 757 299           |
| Bank overdraft                             | 11      | -                    | 3 539 252            |
|                                            |         | <b>191 262 828</b>   | <b>169 633 284</b>   |
| Non-Current Liabilities                    |         |                      |                      |
| Financial liabilities                      | 14      | 3 755 131            | 5 053 240            |
| Finance lease obligation                   | 12      | 173 633              | 3 165 544            |
| Employee benefit obligation                | 6       | 29 152 208           | 25 623 000           |
| Provisions                                 | 15      | 28 654 495           | 27 725 685           |
|                                            |         | <b>61 735 467</b>    | <b>61 567 469</b>    |
| <b>Total Liabilities</b>                   |         | <b>252 998 295</b>   | <b>231 200 753</b>   |
| <b>Net Assets</b>                          |         | <b>753 226 189</b>   | <b>829 801 003</b>   |
| Accumulated surplus                        |         | 753 226 189          | 829 801 003          |

\* See Note 37

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

| Figures in Rand                                     | Note(s) | 2019                 | 2018<br>Restated*    |
|-----------------------------------------------------|---------|----------------------|----------------------|
| <b>Revenue</b>                                      |         |                      |                      |
| <b>Revenue from exchange transactions</b>           |         |                      |                      |
| Service charges                                     | 20      | 239 526 949          | 221 376 503          |
| Rental of facilities and equipment                  | 21      | 197 318              | 203 212              |
| Other income                                        |         | 2 989 624            | 2 378 756            |
| Impairment Gain on Trade & Other Receivables        |         | -                    | 13 989 533           |
| Interest received - investment                      | 22      | 1 696 440            | 444 883              |
| <b>Total revenue from exchange transactions</b>     |         | <b>244 410 331</b>   | <b>238 392 887</b>   |
| <b>Revenue from non-exchange transactions</b>       |         |                      |                      |
| <b>Taxation revenue</b>                             |         |                      |                      |
| Property rates                                      | 23      | 47 873 594           | 88 955 621           |
| Property rates - penalties imposed                  | 23      | 22 159 970           | 18 608 707           |
| Licences and Permits (Non-exchange)                 |         | 4 052 067            | 4 359 527            |
| Interest, Dividends and Rent on Land                |         | 22 700               | -                    |
| <b>Transfer revenue</b>                             |         |                      |                      |
| Government grants & subsidies                       | 24      | 230 306 066          | 211 426 085          |
| Fines, Penalties and Forfeits                       |         | 3 687 670            | 2 895 053            |
| <b>Total revenue from non-exchange transactions</b> |         | <b>308 102 067</b>   | <b>326 244 993</b>   |
| <b>Total revenue</b>                                | 19      | <b>552 512 398</b>   | <b>564 637 880</b>   |
| <b>Expenditure</b>                                  |         |                      |                      |
| Employee related costs                              | 25      | (183 023 882)        | (169 549 797)        |
| Remuneration of councillors                         | 26      | (15 412 694)         | (14 118 777)         |
| Depreciation and amortisation                       | 27      | (51 524 023)         | (37 277 779)         |
| Finance costs                                       | 28      | (5 421 305)          | (4 869 501)          |
| Debt Impairment                                     | 29      | (143 041 269)        | (1 911 210)          |
| Bad debts written off                               | 29      | (4 566 273)          | -                    |
| Bulk purchases                                      | 30      | (156 754 445)        | (168 853 164)        |
| Contracted services                                 | 31      | (59 075 444)         | (58 944 584)         |
| Transfers and Subsidies                             |         | -                    | (30 899 337)         |
| Impairment Losses & Derecognition - PPE             |         | -                    | (5 429 967)          |
| Actuarial losses                                    |         | (1 451 208)          | -                    |
| Inventories losses/write-downs                      |         | -                    | (307 954)            |
| General Expenses                                    | 32      | (45 307 442)         | (31 375 603)         |
| <b>Total expenditure</b>                            |         | <b>(665 577 985)</b> | <b>(523 537 673)</b> |
| <b>(Deficit) surplus for the year</b>               |         | <b>(113 065 587)</b> | <b>41 100 207</b>    |

\* See Note 37

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Changes in Net Assets

| Figures in Rand                                       | Accumulated surplus | Total net assets   |
|-------------------------------------------------------|---------------------|--------------------|
| <b>Balance at 01 July 2017</b>                        | <b>839 196 897</b>  | <b>839 196 897</b> |
| Changes in net assets                                 |                     |                    |
| Current Year Adjustment                               | 11 340 213          | 11 340 213         |
| Net income (losses) recognised directly in net assets | 11 340 213          | 11 340 213         |
| Surplus for the year                                  | 41 100 207          | 41 100 207         |
| Total recognised income and expenses for the year     | 52 440 420          | 52 440 420         |
| Prior Year Error                                      | (61 836 314)        | (61 836 314)       |
| Total changes                                         | (9 395 894)         | (9 395 894)        |
| <b>Restated* Balance at 01 July 2018</b>              | <b>896 872 416</b>  | <b>896 872 416</b> |
| Changes in net assets                                 |                     |                    |
| Surplus for the year                                  | (113 065 587)       | (113 065 587)      |
| Movement in current year                              | (30 580 640)        | (30 580 640)       |
| Total changes                                         | (143 646 227)       | (143 646 227)      |
| <b>Balance at 30 June 2019</b>                        | <b>753 226 189</b>  | <b>753 226 189</b> |

\* See Note 37



# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

| Figures in Rand                                             | Note(s) | 2019               | 2018<br>Restated* |
|-------------------------------------------------------------|---------|--------------------|-------------------|
| <b>Cash flows from operating activities</b>                 |         |                    |                   |
| <b>Receipts</b>                                             |         |                    |                   |
| Sale of goods and services                                  |         | 271 292 749        | 328 408 800       |
| Grants                                                      |         | 230 306 066        | 211 426 085       |
| Interest income                                             |         | 1 719 140          | 444 883           |
| Other receipts                                              |         | 10 949 379         | 9 836 548         |
|                                                             |         | 514 267 334        | 550 116 316       |
| <b>Payments</b>                                             |         |                    |                   |
| Employee costs                                              |         | (198 436 576)      | (183 668 574)     |
| Suppliers                                                   |         | (64 876 675)       | (309 203 536)     |
| Finance costs                                               |         | (5 421 305)        | (4 869 501)       |
|                                                             |         | (268 734 556)      | (497 741 611)     |
| <b>Net cash flows from operating activities</b>             | 34      | <b>245 532 778</b> | <b>52 374 705</b> |
| <b>Cash flows from investing activities</b>                 |         |                    |                   |
| Purchase of property, plant and equipment                   | 3       | (38 184 324)       | (40 566 482)      |
| <b>Cash flows from financing activities</b>                 |         |                    |                   |
| Repayment of financial liabilities                          |         | (1 548 826)        | (1 427 190)       |
| Finance lease payments                                      |         | -                  | 6 612 392         |
| <b>Net cash flows from financing activities</b>             |         | <b>(1 548 826)</b> | <b>5 185 202</b>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |         | <b>22 919 607</b>  | <b>19 132 200</b> |
| Cash and cash equivalents at the beginning of the year      |         | 2 429 334          | (16 702 866)      |
| <b>Cash and cash equivalents at the end of the year</b>     | 11      | <b>25 348 941</b>  | <b>2 429 334</b>  |

\* See Note 37

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|  | Approved<br>budget | Adjustments | Final Budget | Actual amounts<br>on comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference |
|--|--------------------|-------------|--------------|------------------------------------------|-----------------------------------------------------|-----------|
|--|--------------------|-------------|--------------|------------------------------------------|-----------------------------------------------------|-----------|

Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

|                                    |             |            |                    |             |                    |  |
|------------------------------------|-------------|------------|--------------------|-------------|--------------------|--|
| Service charges                    | 233 955 907 | 11 204 000 | <b>245 159 907</b> | 239 526 949 | <b>(5 632 958)</b> |  |
| Rental of facilities and equipment | 236 620     | -          | <b>236 620</b>     | 197 318     | <b>(39 302)</b>    |  |
| Other income                       | 4 033 109   | (321 000)  | <b>3 712 109</b>   | 2 989 624   | <b>(722 485)</b>   |  |
| Interest received - investment     | 754 337     | 38 098     | <b>792 435</b>     | 1 696 440   | <b>904 005</b>     |  |

|                                                 |                    |                   |                    |                    |                    |  |
|-------------------------------------------------|--------------------|-------------------|--------------------|--------------------|--------------------|--|
| <b>Total revenue from exchange transactions</b> | <b>238 979 973</b> | <b>10 921 098</b> | <b>249 901 071</b> | <b>244 410 331</b> | <b>(5 490 740)</b> |  |
|-------------------------------------------------|--------------------|-------------------|--------------------|--------------------|--------------------|--|

##### Revenue from non-exchange transactions

##### Taxation revenue

|                                      |            |           |                   |            |                     |  |
|--------------------------------------|------------|-----------|-------------------|------------|---------------------|--|
| Property rates                       | 85 551 100 | -         | <b>85 551 100</b> | 47 873 594 | <b>(37 677 506)</b> |  |
| Property rates - penalties imposed   | 672 190    | -         | <b>672 190</b>    | 22 159 970 | <b>21 487 780</b>   |  |
| Licences and Permits (Non-exchange)  | 3 746 372  | (190 000) | <b>3 556 372</b>  | 4 052 067  | <b>495 695</b>      |  |
| Interest, Dividends and Rent on Land | -          | -         | -                 | 22 700     | <b>22 700</b>       |  |

##### Transfer revenue

|                               |             |           |                    |             |                     |  |
|-------------------------------|-------------|-----------|--------------------|-------------|---------------------|--|
| Government grants & subsidies | 167 951 000 | 2 005 000 | <b>169 956 000</b> | 230 306 066 | <b>60 350 066</b>   |  |
| Fines, Penalties and Forfeits | 19 262 470  | 2 311     | <b>19 264 781</b>  | 3 687 670   | <b>(15 577 111)</b> |  |

|                                                     |                    |                  |                    |                    |                   |  |
|-----------------------------------------------------|--------------------|------------------|--------------------|--------------------|-------------------|--|
| <b>Total revenue from non-exchange transactions</b> | <b>277 183 132</b> | <b>1 817 311</b> | <b>279 000 443</b> | <b>308 102 067</b> | <b>29 101 624</b> |  |
|-----------------------------------------------------|--------------------|------------------|--------------------|--------------------|-------------------|--|

|                      |                    |                   |                    |                    |                   |  |
|----------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--|
| <b>Total revenue</b> | <b>516 163 105</b> | <b>12 738 409</b> | <b>528 901 514</b> | <b>552 512 398</b> | <b>23 610 884</b> |  |
|----------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--|

#### Expenditure

|                               |               |              |                      |               |                      |      |
|-------------------------------|---------------|--------------|----------------------|---------------|----------------------|------|
| Personnel                     | (151 713 562) | (19 095 000) | <b>(170 808 562)</b> | (183 023 882) | <b>(12 215 320)</b>  | 50.1 |
| Remuneration of councillors   | (17 778 577)  | -            | <b>(17 778 577)</b>  | (15 412 694)  | <b>2 365 883</b>     | 50.2 |
| Depreciation and amortisation | (47 660 415)  | -            | <b>(47 660 415)</b>  | (51 524 023)  | <b>(3 863 608)</b>   | 50.3 |
| Finance costs                 | (1 001 532)   | (7 691 000)  | <b>(8 692 532)</b>   | (5 421 305)   | <b>3 271 227</b>     | 50.4 |
| Debt Impairment               | (7 000 000)   | -            | <b>(7 000 000)</b>   | (143 041 269) | <b>(136 041 269)</b> | 50.5 |
| Bad debts written off         | -             | -            | -                    | (4 566 273)   | <b>(4 566 273)</b>   |      |
| Bulk purchases                | (173 220 976) | (6 779 000)  | <b>(179 999 976)</b> | (156 754 445) | <b>23 245 531</b>    | 50.6 |
| Contracted Services           | (30 000 000)  | (8 744 000)  | <b>(38 744 000)</b>  | (59 075 444)  | <b>(20 331 444)</b>  | 50.7 |
| General Expenses              | (71 539 422)  | 14 485 000   | <b>(57 054 422)</b>  | (40 741 169)  | <b>16 313 253</b>    | 50.9 |

|                          |                      |                     |                      |                      |                      |  |
|--------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|--|
| <b>Total expenditure</b> | <b>(499 914 484)</b> | <b>(27 824 000)</b> | <b>(527 738 484)</b> | <b>(659 560 504)</b> | <b>(131 822 020)</b> |  |
|--------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|--|

|                          |                   |                     |                  |                      |                      |  |
|--------------------------|-------------------|---------------------|------------------|----------------------|----------------------|--|
| <b>Operating deficit</b> | <b>16 248 621</b> | <b>(15 085 591)</b> | <b>1 163 030</b> | <b>(107 048 106)</b> | <b>(108 211 136)</b> |  |
|--------------------------|-------------------|---------------------|------------------|----------------------|----------------------|--|

|                        |   |   |   |             |                    |  |
|------------------------|---|---|---|-------------|--------------------|--|
| Actuarial gains/losses | - | - | - | (1 451 208) | <b>(1 451 208)</b> |  |
|------------------------|---|---|---|-------------|--------------------|--|

|                                |                   |                     |                  |                      |                      |  |
|--------------------------------|-------------------|---------------------|------------------|----------------------|----------------------|--|
| <b>Deficit before taxation</b> | <b>16 248 621</b> | <b>(15 085 591)</b> | <b>1 163 030</b> | <b>(108 499 314)</b> | <b>(109 662 344)</b> |  |
|--------------------------------|-------------------|---------------------|------------------|----------------------|----------------------|--|

|                                                                                                      |                   |                     |                  |                      |                      |  |
|------------------------------------------------------------------------------------------------------|-------------------|---------------------|------------------|----------------------|----------------------|--|
| <b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b> | <b>16 248 621</b> | <b>(15 085 591)</b> | <b>1 163 030</b> | <b>(108 499 314)</b> | <b>(109 662 344)</b> |  |
|------------------------------------------------------------------------------------------------------|-------------------|---------------------|------------------|----------------------|----------------------|--|

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|  | Approved<br>budget | Adjustments | Final Budget | Actual amounts<br>on comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference |
|--|--------------------|-------------|--------------|------------------------------------------|-----------------------------------------------------|-----------|
|--|--------------------|-------------|--------------|------------------------------------------|-----------------------------------------------------|-----------|

Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

|                                            |                    |                    |                    |                    |                     |  |
|--------------------------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--|
| Inventories                                | 2 776 140          | -                  | 2 776 140          | 15 338 165         | 12 562 025          |  |
| Receivables from exchange transactions     | 162 401 540        | 194 849 277        | 357 250 817        | 105 096 986        | (252 153 831)       |  |
| Receivables from non-exchange transactions | -                  | -                  | -                  | 95 444 625         | 95 444 625          |  |
| VAT receivable                             | -                  | -                  | -                  | 57 491 140         | 57 491 140          |  |
| Cash and cash equivalents                  | (12 950 296)       | (9 790 004)        | (22 740 300)       | 25 348 941         | 48 089 241          |  |
|                                            | <b>152 227 384</b> | <b>185 059 273</b> | <b>337 286 657</b> | <b>298 719 857</b> | <b>(38 566 800)</b> |  |

##### Non-Current Assets

|                               |                    |                   |                    |                    |                     |  |
|-------------------------------|--------------------|-------------------|--------------------|--------------------|---------------------|--|
| Investment property           | 1 740 520          | 89 549 842        | 91 290 362         | 91 290 362         | -                   |  |
| Property, plant and equipment | 809 292 400        | (13 201 258)      | 796 091 142        | 749 711 263        | (46 379 879)        |  |
| Intangible assets             | 474 880            | (432 806)         | 42 074             | 26 986             | (15 088)            |  |
| Heritage assets               | 10 977 360         | -                 | 10 977 360         | 9 246 170          | (1 731 190)         |  |
| Employee benefit asset        | -                  | -                 | -                  | 3 907 792          | 3 907 792           |  |
|                               | <b>822 485 160</b> | <b>75 915 778</b> | <b>898 400 938</b> | <b>854 182 573</b> | <b>(44 218 365)</b> |  |

|                     |                    |                    |                      |                      |                     |  |
|---------------------|--------------------|--------------------|----------------------|----------------------|---------------------|--|
| <b>Total Assets</b> | <b>974 712 544</b> | <b>260 975 051</b> | <b>1 235 687 595</b> | <b>1 152 902 430</b> | <b>(82 785 165)</b> |  |
|---------------------|--------------------|--------------------|----------------------|----------------------|---------------------|--|

#### Liabilities

##### Current Liabilities

|                                         |                   |                   |                    |                    |                   |  |
|-----------------------------------------|-------------------|-------------------|--------------------|--------------------|-------------------|--|
| Loans from economic entities            | 3 937 900         | -                 | 3 937 900          | -                  | (3 937 900)       |  |
| Financial liabilities                   | -                 | -                 | -                  | 1 243 415          | 1 243 415         |  |
| Finance lease obligation                | -                 | -                 | -                  | 382 908            | 382 908           |  |
| Payables from exchange transactions     | 38 425 000        | 121 144 990       | 159 569 990        | 137 910 894        | (21 659 096)      |  |
| VAT payable                             | -                 | -                 | -                  | 97 158 475         | 97 158 475        |  |
| Consumer deposits                       | 3 295 540         | 1 499 078         | 4 794 618          | 4 902 667          | 108 049           |  |
| Unspent conditional grants and receipts | -                 | -                 | -                  | 7 155 609          | 7 155 609         |  |
| Provisions                              | 23 298 800        | (23 298 800)      | -                  | -                  | -                 |  |
|                                         | <b>68 957 240</b> | <b>99 345 268</b> | <b>168 302 508</b> | <b>248 753 968</b> | <b>80 451 460</b> |  |

##### Non-Current Liabilities

|                             |                   |                   |                   |                   |                  |  |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|------------------|--|
| Financial liabilities       | 10 090 140        | (10 090 140)      | -                 | 3 755 131         | 3 755 131        |  |
| Finance lease obligation    | -                 | -                 | -                 | 173 633           | 173 633          |  |
| Employee benefit obligation | -                 | -                 | -                 | 36 589 208        | 36 589 208       |  |
| Provisions                  | 19 363 020        | 40 252 815        | 59 615 835        | 28 654 495        | (30 961 340)     |  |
|                             | <b>29 453 160</b> | <b>30 162 675</b> | <b>59 615 835</b> | <b>69 172 467</b> | <b>9 556 632</b> |  |

|                          |                   |                    |                    |                    |                   |  |
|--------------------------|-------------------|--------------------|--------------------|--------------------|-------------------|--|
| <b>Total Liabilities</b> | <b>98 410 400</b> | <b>129 507 943</b> | <b>227 918 343</b> | <b>317 926 435</b> | <b>90 008 092</b> |  |
|--------------------------|-------------------|--------------------|--------------------|--------------------|-------------------|--|

|                   |                    |                    |                      |                    |                      |  |
|-------------------|--------------------|--------------------|----------------------|--------------------|----------------------|--|
| <b>Net Assets</b> | <b>876 302 144</b> | <b>131 467 108</b> | <b>1 007 769 252</b> | <b>834 975 995</b> | <b>(172 793 257)</b> |  |
|-------------------|--------------------|--------------------|----------------------|--------------------|----------------------|--|

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|                                                                    | Approved<br>budget | Adjustments       | Final Budget       | Actual amounts<br>on comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference |
|--------------------------------------------------------------------|--------------------|-------------------|--------------------|------------------------------------------|-----------------------------------------------------|-----------|
| Figures in Rand                                                    |                    |                   |                    |                                          |                                                     |           |
| <b>Net Assets</b>                                                  |                    |                   |                    |                                          |                                                     |           |
| <b>Net Assets Attributable to<br/>Owners of Controlling Entity</b> |                    |                   |                    |                                          |                                                     |           |
| <b>Reserves</b>                                                    |                    |                   |                    |                                          |                                                     |           |
| Revaluation reserve                                                | 1 095 000          | -                 | <b>1 095 000</b>   | -                                        | <b>(1 095 000)</b>                                  |           |
| Accumulated surplus                                                | 950 106 441        | 46 477 671        | <b>996 584 112</b> | 781 014 059                              | <b>(215 570 053)</b>                                |           |
| <b>Total Net Assets</b>                                            | <b>951 201 441</b> | <b>46 477 671</b> | <b>997 679 112</b> | <b>781 014 059</b>                       | <b>(216 665 053)</b>                                |           |

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|  | Approved<br>budget | Adjustments | Final Budget | Actual amounts<br>on comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference |
|--|--------------------|-------------|--------------|------------------------------------------|-----------------------------------------------------|-----------|
|--|--------------------|-------------|--------------|------------------------------------------|-----------------------------------------------------|-----------|

Figures in Rand

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

|                            |                    |                   |                    |                    |                     |  |
|----------------------------|--------------------|-------------------|--------------------|--------------------|---------------------|--|
| Sale of goods and services | 266 661 021        | 9 690 000         | <b>276 351 021</b> | 307 032 229        | <b>30 681 208</b>   |  |
| Grants                     | 218 900 000        | 6 175 000         | <b>225 075 000</b> | 224 405 757        | <b>(669 243)</b>    |  |
| Interest income            | 754 337            | -                 | <b>754 337</b>     | 1 719 140          | <b>964 803</b>      |  |
| Other receipts             | 23 426 077         | 3 402 000         | <b>26 828 077</b>  | 10 677 468         | <b>(16 150 609)</b> |  |
|                            | <b>509 741 435</b> | <b>19 267 000</b> | <b>529 008 435</b> | <b>543 834 594</b> | <b>14 826 159</b>   |  |

##### Payments

|                |                      |                     |                      |                      |                      |  |
|----------------|----------------------|---------------------|----------------------|----------------------|----------------------|--|
| Employee costs | -                    | -                   | -                    | (198 422 062)        | <b>(198 422 062)</b> |  |
| Suppliers      | (444 252 537)        | (17 554 000)        | <b>(461 806 537)</b> | (261 857 425)        | <b>199 949 112</b>   |  |
| Finance costs  | (1 001 532)          | (7 691 000)         | <b>(8 692 532)</b>   | (5 213 149)          | <b>3 479 383</b>     |  |
|                | <b>(445 254 069)</b> | <b>(25 245 000)</b> | <b>(470 499 069)</b> | <b>(465 492 636)</b> | <b>5 006 433</b>     |  |

|                                                 |                   |                    |                   |                   |                   |  |
|-------------------------------------------------|-------------------|--------------------|-------------------|-------------------|-------------------|--|
| <b>Net cash flows from operating activities</b> | <b>64 487 366</b> | <b>(5 978 000)</b> | <b>58 509 366</b> | <b>78 341 958</b> | <b>19 832 592</b> |  |
|-------------------------------------------------|-------------------|--------------------|-------------------|-------------------|-------------------|--|

#### Cash flows from investing activities

|                                                     |              |             |                     |              |                   |  |
|-----------------------------------------------------|--------------|-------------|---------------------|--------------|-------------------|--|
| Proceeds from sale of property, plant and equipment | (53 649 000) | (6 295 000) | <b>(59 944 000)</b> | (38 184 324) | <b>21 759 676</b> |  |
| Loans to economic entities repaid                   | (2 500 000)  | -           | <b>(2 500 000)</b>  | (1 541 948)  | <b>958 052</b>    |  |

|                                                 |                     |                    |                     |                     |                   |  |
|-------------------------------------------------|---------------------|--------------------|---------------------|---------------------|-------------------|--|
| <b>Net cash flows from investing activities</b> | <b>(56 149 000)</b> | <b>(6 295 000)</b> | <b>(62 444 000)</b> | <b>(39 726 272)</b> | <b>22 717 728</b> |  |
|-------------------------------------------------|---------------------|--------------------|---------------------|---------------------|-------------------|--|

|                                                        |              |              |                    |           |                   |  |
|--------------------------------------------------------|--------------|--------------|--------------------|-----------|-------------------|--|
| Net increase/(decrease) in cash and cash equivalents   | 8 338 366    | (12 273 000) | <b>(3 934 634)</b> | 5 963 777 | <b>42 550 320</b> |  |
| Cash and cash equivalents at the beginning of the year | (21 289 000) | 23 718 334   | <b>2 429 334</b>   | 2 429 334 | -                 |  |
| Effect of exchange rate movement on cash balances      | (12 950 634) | 11 445 334   | <b>(1 505 300)</b> | -         | <b>1 505 300</b>  |  |

|                                                         |                     |                   |                    |                  |                   |  |
|---------------------------------------------------------|---------------------|-------------------|--------------------|------------------|-------------------|--|
| <b>Cash and cash equivalents at the end of the year</b> | <b>(25 901 268)</b> | <b>22 890 668</b> | <b>(3 010 600)</b> | <b>8 393 111</b> | <b>44 055 620</b> |  |
|---------------------------------------------------------|---------------------|-------------------|--------------------|------------------|-------------------|--|

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Mergers

##### Definitions

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

A merger is the establishment of a new combined municipality in which none of the former entities obtain control over any other and no acquirer can be identified.

Merger date is the date on which entities are combined for the mutual sharing of risks and benefits and when the assets and liabilities are transferred to the combined municipality.

A merger is the establishment of a new combined municipality in which none of the former entities obtains control over any other and no acquirer can be identified. As no acquirer can be identified, a merger does not result in an municipality having or obtaining control over any of the entities that are involved in the transaction or event, as the combining entities are not controlled entities of each other, either before or after the merger.

##### Accounting by the entity as the combined entity

##### Initial recognition and measurement

As of the merger date, the municipality recognises all the assets acquired and liabilities assumed. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the merger, a combining municipality was not applying the accrual basis of accounting, that combining municipality changes its basis of accounting to the accrual basis of accounting prior to the merger.

The difference between the carrying amounts of the assets acquired and the liabilities assumed is recognised in accumulated surplus or deficit.

#### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

---

### 1.4 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost over the useful life of the property, which is as follows:

| Item                 | Useful life |
|----------------------|-------------|
| Property - land      | indefinite  |
| Property - buildings | 30 years    |

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

---

| Item                                | Depreciation method | Average useful life |
|-------------------------------------|---------------------|---------------------|
| Land                                | Straight line       | indefinite          |
| Buildings                           | Straight line       | 4-53 years          |
| Plant and machinery                 | Straight line       | 5-15 years          |
| Furniture and fixtures              | Straight line       | 5- 7 years          |
| Motor vehicles                      | Straight line       | 5-7 years           |
| Office equipment                    | Straight line       | 5-7 years           |
| IT equipment                        | Straight line       | 3 years             |
| Infrastructure                      | Straight line       | 10 years            |
| Community                           | Straight line       | 30 years            |
| Other property, plant and equipment | Straight line       | 3-10 years          |

---

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.



# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

# Inkosi Langalibalele Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.6 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

---

| Item                     | Depreciation method | Average useful life |
|--------------------------|---------------------|---------------------|
| Computer software, other | Straight line       | 3 years             |

---

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.7 Heritage assets (continued)

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

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### 1.8 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### 1.9 Tax

#### Tax expenses

Normal tax expense

No provision has been made for taxation as the municipality is exempt from taxation in terms of section 10 (1) (A) or the Income Tax Act.

Value Added Tax (VAT):

The municipality accounts for VAT on the cash/payments basis, based on the approval received from the Commissioner for South African Revenue Services to an application by the Municipality, permission has been given to remit or claim for value added tax on the payments basis for receivables and payables.

### 1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or

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### 1.11 Inventories (continued)

- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

### 1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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### 1.13 Impairment of non-cash-generating assets (continued)

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

### 1.14 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.15 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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### **1.15 Employee benefits (continued)**

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.



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### 1.15 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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### 1.15 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

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### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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### 1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

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### 1.16 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

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### 1.18 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

### 1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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### 1.19 Revenue from non-exchange transactions (continued)

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### 1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

# Inkosi Langalibalele Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.22 Comparative figures

In accordance with GRAP 107 Mergers, comparative figures are not necessary.

### 1.23 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.



# Inkosi Langalibalele Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

# **Inkosi Langalibalele Municipality**

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Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.28 Events after reporting date (continued)**

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Inkosi Langalibalele Municipality

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Annual Financial Statements for the year ended 30 June 2019

## 2. Investment property

|                     | 2019                |                                                        |                | 2018                |                                                        |                |
|---------------------|---------------------|--------------------------------------------------------|----------------|---------------------|--------------------------------------------------------|----------------|
|                     | Cost /<br>Valuation | Accumulated depreciation and<br>accumulated impairment | Carrying value | Cost /<br>Valuation | Accumulated depreciation and<br>accumulated impairment | Carrying value |
| Investment property | 92 502 348          | -                                                      | 92 502 348     | 92 502 348          | -                                                      | 92 502 348     |

### Reconciliation of investment property - 2019

|                     | Opening<br>balance | Total      |
|---------------------|--------------------|------------|
| Investment property | 92 502 348         | 92 502 348 |

### Reconciliation of investment property - 2018

|                     | Opening<br>balance | Total      |
|---------------------|--------------------|------------|
| Investment property | 92 502 348         | 92 502 348 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The valuation of the investment property was performed by MillsFithet Independent Valuers. The fixed date of valuation and the date of compilation as per the valuation report are 2 July 2012 and 19 April 2013 respectively. The fair value as at the date 2 July 2012 was R 3 500 000.

## 3. Property, plant and equipment

|                        | 2019                 |                                                        |                    | 2018                 |                                                        |                    |
|------------------------|----------------------|--------------------------------------------------------|--------------------|----------------------|--------------------------------------------------------|--------------------|
|                        | Cost /<br>Valuation  | Accumulated depreciation and<br>accumulated impairment | Carrying value     | Cost /<br>Valuation  | Accumulated depreciation and<br>accumulated impairment | Carrying value     |
| Land                   | 156 354 400          | -                                                      | 156 354 400        | 156 354 400          | -                                                      | 156 354 400        |
| Buildings              | 241 255 617          | (133 061 477)                                          | 108 194 140        | 240 761 237          | (130 498 946)                                          | 110 262 291        |
| Plant and machinery    | 16 257 971           | (15 251 867)                                           | 1 006 104          | 16 196 957           | (14 188 219)                                           | 2 008 738          |
| Furniture and fixtures | 6 337 803            | (5 507 064)                                            | 830 739            | 6 054 882            | (5 334 161)                                            | 720 721            |
| Motor vehicles         | 21 598 796           | (17 867 476)                                           | 3 731 320          | 18 905 062           | (16 742 948)                                           | 2 162 114          |
| Office equipment       | 5 154 116            | (3 655 722)                                            | 1 498 394          | 4 187 804            | (3 531 815)                                            | 655 989            |
| Infrastructure         | 602 050 856          | (309 353 253)                                          | 292 697 603        | 575 462 453          | (267 580 850)                                          | 307 881 603        |
| Community              | 88 748 893           | (25 101 532)                                           | 63 647 361         | 79 587 807           | (22 045 159)                                           | 57 542 648         |
| Security Assets        | 204 011              | (160 735)                                              | 43 276             | 204 011              | (137 329)                                              | 66 682             |
| Work In progress       | 88 167 584           | -                                                      | 88 167 584         | 90 231 110           | -                                                      | 90 231 110         |
| Finance Leased Assets  | 12 863 687           | (8 343 236)                                            | 4 520 451          | 12 863 687           | (6 730 153)                                            | 6 133 534          |
| <b>Total</b>           | <b>1 238 993 734</b> | <b>(518 302 362)</b>                                   | <b>720 691 372</b> | <b>1 200 809 410</b> | <b>(466 789 580)</b>                                   | <b>734 019 830</b> |

# Inkosi Langalibalele Municipality

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### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2019

|                        | Opening balance    | Additions         | Transfers    | Depreciation        | Total              |
|------------------------|--------------------|-------------------|--------------|---------------------|--------------------|
| Land                   | 156 354 400        | -                 | -            | -                   | 156 354 400        |
| Buildings              | 110 262 291        | -                 | 494 380      | (2 562 554)         | 108 194 117        |
| Plant and machinery    | 2 008 738          | -                 | 61 014       | (1 063 648)         | 1 006 104          |
| Furniture and fixtures | 720 722            | -                 | 282 921      | (172 903)           | 830 740            |
| Motor vehicles         | 2 162 114          | -                 | 2 693 734    | (1 124 528)         | 3 731 320          |
| Office equipment       | 655 989            | -                 | 966 312      | (123 907)           | 1 498 394          |
| Infrastructure         | 307 881 603        | -                 | 26 588 404   | (41 772 404)        | 292 697 603        |
| Community              | 57 542 648         | -                 | 9 161 086    | (3 056 350)         | 63 647 384         |
| Security Assets        | 66 681             | -                 | -            | (23 406)            | 43 275             |
| Work In progress       | 90 231 110         | 38 184 324        | (40 247 851) | -                   | 88 167 583         |
| Finance Leased Assets  | 6 133 534          | -                 | -            | (1 613 083)         | 4 520 451          |
|                        | <b>734 019 830</b> | <b>38 184 324</b> | <b>-</b>     | <b>(51 512 783)</b> | <b>720 691 371</b> |

#### Reconciliation of property, plant and equipment - 2018

|                        | Opening balance    | Additions         | Transfers    | Other changes, movements | Depreciation        | Impairment loss  | Total              |
|------------------------|--------------------|-------------------|--------------|--------------------------|---------------------|------------------|--------------------|
| Land                   | 156 354 400        | -                 | -            | -                        | -                   | -                | 156 354 400        |
| Buildings              | 111 648 019        | -                 | 1 828 577    | (463 421)                | (2 750 884)         | -                | 110 262 291        |
| Plant and machinery    | 4 901 977          | -                 | 106 281      | (194 500)                | (2 805 019)         | -                | 2 008 738          |
| Furniture and fixtures | 850 487            | -                 | 32 015       | -                        | (161 780)           | -                | 720 722            |
| Motor vehicles         | 3 967 884          | -                 | -            | -                        | (1 638 220)         | (167 550)        | 17 970 96          |
| Office equipment       | 799 080            | -                 | 196 516      | -                        | (339 607)           | -                | 655 989            |
| Infrastructure         | 332 198 937        | -                 | 16 162 656   | -                        | (39 794 720)        | (685 270)        | 307 881 603        |
| Community              | 55 201 159         | -                 | 5 216 118    | -                        | (2 874 629)         | -                | 57 542 648         |
| Security Assets        | 121 456            | -                 | -            | -                        | (54 774)            | -                | 66 681             |
| Work in Progress       | 73 206 791         | 40 566 482        | (23 542 163) | -                        | -                   | -                | 90 231 110         |
| Finance Lease Assets   | 7 327 450          | -                 | -            | -                        | (1 193 916)         | -                | 6 133 534          |
|                        | <b>746 577 640</b> | <b>40 566 482</b> | <b>-</b>     | <b>(657 921)</b>         | <b>(51 613 549)</b> | <b>(852 820)</b> | <b>734 019 830</b> |

#### Pledged as security

No Property Plant and Equipment was pledged as security for the year ended 30 June 2017.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 4. Intangible assets

|                          | 2019             |                                                     |                | 2018             |                                                     |                |
|--------------------------|------------------|-----------------------------------------------------|----------------|------------------|-----------------------------------------------------|----------------|
|                          | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 2 151 374        | (2 104 062)                                         | 47 312         | 2 123 154        | (2 064 603)                                         | 58 551         |

# Inkosi Langalibalele Municipality

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### 4. Intangible assets (continued)

#### Reconciliation of intangible assets - 2019

|                          | Opening balance | Amortisation | Total  |
|--------------------------|-----------------|--------------|--------|
| Computer software, other | 58 551          | (11 239)     | 47 312 |

#### Reconciliation of intangible assets - 2018

|                          | Opening balance | Amortisation | Total  |
|--------------------------|-----------------|--------------|--------|
| Computer software, other | 88 119          | (29 568)     | 58 551 |

### 5. Heritage assets

|                      | 2019             |                               |                | 2018             |                               |                |
|----------------------|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
|                      | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Historical buildings | 9 245 875        | -                             | 9 245 875      | 9 245 875        | -                             | 9 245 875      |

#### Reconciliation of heritage assets 2019

|                      | Opening balance | Total     |
|----------------------|-----------------|-----------|
| Historical buildings | 9 245 875       | 9 245 875 |

#### Reconciliation of heritage assets 2018

|                      | Opening balance | Total     |
|----------------------|-----------------|-----------|
| Historical buildings | 9 245 875       | 9 245 875 |

### 6. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

|                                                                         |            |            |
|-------------------------------------------------------------------------|------------|------------|
| Present value of the defined benefit obligation-partly or wholly funded | 29 152 208 | 25 623 000 |
|-------------------------------------------------------------------------|------------|------------|

Changes in the present value of the defined benefit obligation are as follows:

|                                                                  |                   |                   |
|------------------------------------------------------------------|-------------------|-------------------|
| Opening balance                                                  | 25 623 000        | 25 623 000        |
| Net expense recognised in the statement of financial performance | 3 529 208         | -                 |
|                                                                  | <b>29 152 208</b> | <b>25 623 000</b> |

#### Net expense recognised in the statement of financial performance

|                          |                  |                |
|--------------------------|------------------|----------------|
| Current service cost     | 1 045 000        | 705 000        |
| Interest cost            | 2 263 000        | 2 549 000      |
| Actuarial (gains) losses | 1 451 208        | (1 599 000)    |
| Settlement               | (1 230 000)      | (1 353 000)    |
|                          | <b>3 529 208</b> | <b>302 000</b> |

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## Notes to the Annual Financial Statements

| Figures in Rand                             | 2019              | 2018              |
|---------------------------------------------|-------------------|-------------------|
| <b>7. Inventories</b>                       |                   |                   |
| Electricity                                 | -                 | 478 952           |
| Rates & General                             | -                 | 776 624           |
| Other inventories for sale                  | 432 374           | -                 |
| Consumable stores - Franking Machine Stamps | 2 036             | 2 036             |
| Unsold Properties Held for Resale           | 15 290 600        | 9 005 000         |
|                                             | 15 725 010        | 10 262 612        |
| Inventories (write-downs)                   | (386 845)         | -                 |
|                                             | <b>15 338 165</b> | <b>10 262 612</b> |

## 8. Receivables from exchange transactions

|                                |                   |                    |
|--------------------------------|-------------------|--------------------|
| Other Receivables              | 32 939            | -                  |
| Consumer debtors - Electricity | 29 900 548        | 102 263 942        |
| Consumer debtors - Refuse      | 16 457 431        | 12 525 200         |
| Rental Debtors                 | 1 214 928         | 979 602            |
|                                | <b>47 605 846</b> | <b>115 768 744</b> |

## Electricity Losses

### Purchases - KWH

|          |                    |                    |
|----------|--------------------|--------------------|
| Estcourt | 177 294 951        | 171 520 834        |
| Wembezi  | 13 837 756         | 14 325 341         |
|          | <b>191 132 707</b> | <b>185 846 175</b> |

### Sales - KWH

|              |                    |                    |
|--------------|--------------------|--------------------|
| Domestic     | 37 184 340         | 40 404 708         |
| Commercial   | 14 943 744         | 15 971 221         |
| Bulk         | 124 689 468        | 122 309 220        |
| Departmental | 2 327 117          | 2 606 581          |
|              | <b>179 144 669</b> | <b>181 291 730</b> |

### Percentage of Losses - KWH

|                    |                   |                  |
|--------------------|-------------------|------------------|
| Total Purchases    | 191 132 707       | 185 846 175      |
| Total Sales        | (179 144 670)     | (181 291 730)    |
| <b>Loss in KWH</b> | <b>11 988 037</b> | <b>4 554 445</b> |

Total percentage Losses for period ended 30 June 2019 - 6.27% and 30 June 2018 - 2.45%, respectively.

## Reconciliation of provision for impairment of trade and other receivables

|                          |                    |                   |
|--------------------------|--------------------|-------------------|
| Opening balance          | 28 797 577         | 33 184 438        |
| Provision for impairment | 76 353 383         | 9 602 672         |
| Unused amounts reversed  | -                  | (13 989 533)      |
|                          | <b>105 150 960</b> | <b>28 797 577</b> |

## 9. Receivables from non-exchange transactions

|                                                                         |                   |                   |
|-------------------------------------------------------------------------|-------------------|-------------------|
| Fines- Traffic                                                          | 823 235           | 1 043 292         |
| Other receivables from non-exchange revenue - Overpayments to Creditors | 270 534           | 270 534           |
| Consumer debtors - Rates                                                | 94 350 856        | 70 737 438        |
|                                                                         | <b>95 444 625</b> | <b>72 051 264</b> |

# Inkosi Langalibalele Municipality

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## Notes to the Annual Financial Statements

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### 9. Receivables from non-exchange transactions (continued)

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

|                                        |                    |                   |
|----------------------------------------|--------------------|-------------------|
| Opening balance                        | 61 059 820         | 1 679 869         |
| Provision for impairment               | 3 544 707          | 1 911 210         |
| Consumer debtors rates debt impairment | 63 143 179         | 57 468 741        |
|                                        | <b>127 747 706</b> | <b>61 059 820</b> |

### 10. VAT receivable

|     |   |            |
|-----|---|------------|
| VAT | - | 21 123 946 |
|-----|---|------------|

The Inkosi Langalibalele Municipality was registered for Value Added Taxation (VAT) with effect 01 October 2016, as a newly merged Municipality of the former Imbabazane & uMtshezi Municipalities. The Municipality uses the Payment basis to account for Valued Added Taxation(VAT) payable.

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

|                     |                   |                  |
|---------------------|-------------------|------------------|
| Cash on hand        | 13 780            | 13 780           |
| Bank balances       | 9 755 591         | (3 539 252)      |
| Short-term deposits | 15 579 570        | 5 954 806        |
|                     | <b>25 348 941</b> | <b>2 429 334</b> |

#### Short term deposits

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

|                                                    |                   |                  |
|----------------------------------------------------|-------------------|------------------|
| FNB Call Account Number 62033811995                | 3 375             | 116 199          |
| FNB Cheque Account Number 62216019019              | 104 476           | 478 894          |
| FNB Cheque Account Number 62216024737              | 2 335             | 528 031          |
| FNB Money Market Account Number 62232266991        | 78 185            | 168 790          |
| FNB Cheque Account Number 62281385130              | 1 339             | 37 222           |
| FNB Money Market Account Number 6234751060         | 371 738           | 1 228            |
| FNB Money Market Account Number 6234582050         | 1 824 497         | 389 040          |
| FNB Fixed Deposit Account Number 71066697123       | 14 000            | 14 000           |
| FNB Fixed Deposit Account 71021254116              | 51 537            | 42 064           |
| FNB Fixed Deposit Account 71048724530              | 11 000            | 11 000           |
| Standard Bank Money Market Account Number 75075646 | 12 528            | 12 522           |
| Nedbank Fixed Deposit Account Number 19542952      | 32 234            | 32 234           |
| FNB Call Account Number 62296691686                | 2 619 571         | 4 123 582        |
| FNB Call Account Number 62778010969                | 4 134             | -                |
| FNB Call Account Number 62778019200                | 6 660 144         | -                |
| FNB Call Account Number 62778013369                | 1 300 301         | -                |
| FNB Call Account Number 62778018517                | 13 395            | -                |
| FNB Call Account Number 62778011529                | 17 957            | -                |
| FNB Call Account Number 62778015589                | 120 524           | -                |
| FNB Call Account Number 62778017650                | 226 560           | -                |
| FNB Call Account Number 62778014648                | 47 927            | -                |
| FNB Call Account Number 62778016743                | 1 942 956         | -                |
| FNB Call Account Number 62778016115                | 118 853           | -                |
|                                                    | <b>15 579 566</b> | <b>5 954 806</b> |

# Inkosi Langalibalele Municipality

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## Notes to the Annual Financial Statements

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### 11. Cash and cash equivalents (continued)

The municipality had the following bank accounts

| Account number / description                | Bank statement balances |                  |                  | Cash book balances |                    |                     |
|---------------------------------------------|-------------------------|------------------|------------------|--------------------|--------------------|---------------------|
|                                             | 30 June 2019            | 30 June 2018     | 30 June 2017     | 30 June 2019       | 30 June 2018       | 30 June 2017        |
| Main Bank Account - FNB Acc No. 62633444443 | 17 672 874              | 5 089 084        | 7 490 893        | (7 200 239)        | (3 982 472)        | (21 974 619)        |
| Main Bank Account - ABSA Acc No. 4056119170 | 9 239                   | 522              | 1 055 389        | -                  | -                  | -                   |
| <b>Total</b>                                | <b>17 682 113</b>       | <b>5 089 606</b> | <b>8 546 282</b> | <b>(7 200 239)</b> | <b>(3 982 472)</b> | <b>(21 974 619)</b> |

### 12. Finance lease obligation

#### Minimum lease payments due

|                                     |         |           |
|-------------------------------------|---------|-----------|
| - within one year                   | 382 908 | 3 165 544 |
| - in second to fifth year inclusive | 132 462 | 515 370   |

|                                                |                |                  |
|------------------------------------------------|----------------|------------------|
| <b>Present value of minimum lease payments</b> | <b>515 370</b> | <b>3 680 914</b> |
|------------------------------------------------|----------------|------------------|

|                         |                |                  |
|-------------------------|----------------|------------------|
| Non-current liabilities | 173 633        | 3 222 867        |
| Current liabilities     | 382 908        | 437 462          |
|                         | <b>556 541</b> | <b>3 660 329</b> |

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 5 years for motor vehicles and 5 years for equipment.

Interest rates are fixed at the contract date. All leases have fixed repayments

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

### 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

|                               |                  |                   |
|-------------------------------|------------------|-------------------|
| Demarcation Grant             | -                | 5 426 400         |
| COGTA Small Towns Grant       | 1 630 270        | 1 908 205         |
| FMG Grant                     | 48 135           | 822 898           |
| INEP Grant                    | -                | 6 983 074         |
| Infrastructure Sport Facility | 1 912            | 1 912             |
| Library Grant                 | 604 572          | 847 267           |
| All Other CoGTA Grants        | 211 441          | 519 116           |
| NYDA Grant                    | 9 917            | 216 027           |
| Department of Housing Grant   | 1 697 775        | 3 670 059         |
| Sports Grants                 | 46 088           | -                 |
| Capacity Building MSIG        | 1 055 000        | -                 |
| Town Planning Grant           | 1 500 000        | -                 |
| LED Grant                     | 350 500          | -                 |
|                               | <b>7 155 610</b> | <b>20 394 958</b> |



# Inkosi Langalibalele Municipality

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| <b>13. Unspent conditional grants and receipts (continued)</b> |                  |                   |
| <b>Movement during the year</b>                                |                  |                   |
| Balance at the beginning of the year                           | 20 394 958       | 19 479 604        |
| Additions during the year                                      | 230 606 765      | 69 729 983        |
| Income recognition during the year                             | (230 613 741)    | (68 814 629)      |
| Adjustments                                                    | (13 232 374)     | -                 |
|                                                                | <b>7 155 608</b> | <b>20 394 958</b> |

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

### 14. Other financial liabilities

#### At amortised cost

|                        |                  |                  |
|------------------------|------------------|------------------|
| DBSA Loan 61000893     | 2 303 063        | 2 365 751        |
| DBSA Loan 61000894     | 2 431 247        | 2 485 740        |
| ABSA Loan 30-4127-3209 | 264 236          | 1 695 881        |
|                        | <b>4 998 546</b> | <b>6 547 372</b> |

|                                          |                  |                  |
|------------------------------------------|------------------|------------------|
| <b>Total other financial liabilities</b> | <b>4 998 546</b> | <b>6 547 372</b> |
|------------------------------------------|------------------|------------------|

The DBSA Loans are repayed bi-annually, whilst the ASBA is repayed monthly on the 1st. The DBSA Loans have a fixed interest rate of 6.75% and ABSA has fixed interest rate of 9.67%. The ABSA Loan will be redeemed in full by the 1 November 2019. The DBSA loans will be fully redeem by the 30 June 2031.

#### Non-current liabilities

|                   |           |           |
|-------------------|-----------|-----------|
| At amortised cost | 3 755 131 | 5 053 240 |
|-------------------|-----------|-----------|

#### Current liabilities

|                   |           |           |
|-------------------|-----------|-----------|
| At amortised cost | 1 243 415 | 1 494 132 |
|-------------------|-----------|-----------|

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### 15. Provisions - Land Fillsite

#### Reconciliation of provisions - 2019

|                              | Opening Balance | Additions | Change in discount factor | Total      |
|------------------------------|-----------------|-----------|---------------------------|------------|
| Environmental rehabilitation | 27 725 685      | 2 661 666 | (1 732 856)               | 28 654 495 |

#### Reconciliation of provisions - 2018

|                              | Opening Balance | Additions | Total      |
|------------------------------|-----------------|-----------|------------|
| Environmental rehabilitation | 25 387 988      | 2 337 697 | 27 725 685 |

#### Environmental rehabilitation provision

The determination of the costs required for the rehabilitation of the Landfill sites was done as at 30 June 2018. The landfill site is 13 years to closure, but will still require rehabilitation. The increase in the provision was calculated using the previous year data which was escalated with CPI of 4.60%

### 16. Payables from exchange transactions

|                                                     |                    |                    |
|-----------------------------------------------------|--------------------|--------------------|
| Trade payables                                      | 92 566 736         | 120 841 592        |
| Payments received in advanced - contract in process | 5 592 254          | 5 503 676          |
| Retentions                                          | 9 009 614          | 6 898 633          |
| Provision for Leave                                 | 9 288 712          | 9 288 712          |
| Salary Control                                      | 19 912 355         | -                  |
| Bonuses                                             | 1 541 223          | -                  |
|                                                     | <b>137 910 894</b> | <b>142 532 613</b> |

### 17. VAT payable

|            |                   |   |
|------------|-------------------|---|
| VAT Output | 97 158 475        | - |
| VAT Input  | (57 491 140)      | - |
|            | <b>39 667 335</b> | - |

### 18. Consumer deposits

|             |           |           |
|-------------|-----------|-----------|
| Electricity | 4 902 667 | 4 794 618 |
|-------------|-----------|-----------|

### 19. Revenue

|                                              |                    |                    |
|----------------------------------------------|--------------------|--------------------|
| Service charges                              | 239 526 949        | 221 376 503        |
| Rental of facilities and equipment           | 197 318            | 203 212            |
| Other income                                 | 2 989 624          | 2 378 756          |
| Fair Value Adjustment to Bad Debts Provision | -                  | 13 989 533         |
| Interest received - investment               | 1 696 440          | 444 883            |
| Property rates                               | 47 873 594         | 88 955 621         |
| Property rates - penalties imposed           | 22 159 970         | 18 608 707         |
| Interest, Dividends and Rent on Land         | 22 700             | -                  |
| Government grants & subsidies                | 230 306 066        | 211 426 085        |
| Fines, Penalties and Forfeits                | 3 687 670          | 2 895 053          |
|                                              | <b>548 460 331</b> | <b>560 278 353</b> |

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### 19. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

|                                                |                    |                    |
|------------------------------------------------|--------------------|--------------------|
| Service charges                                | 239 526 949        | 221 376 503        |
| Rental of facilities and equipment             | 197 318            | 203 212            |
| Other income                                   | 2 989 624          | 2 378 756          |
| Impairment Gain on trade and other receivables | -                  | 13 989 533         |
| Interest received - investment                 | 1 696 440          | 444 883            |
|                                                | <b>244 410 331</b> | <b>238 392 887</b> |

The amount included in revenue arising from non-exchange transactions is as follows:

#### Taxation revenue

|                                      |            |            |
|--------------------------------------|------------|------------|
| Property rates                       | 47 873 594 | 88 955 621 |
| Property rates - penalties imposed   | 22 159 970 | 18 608 707 |
| Licences or permits                  | 4 052 067  | 4 359 527  |
| Interest, Dividends and Rent on Land | 22 700     | -          |

#### Transfer revenue

|                               |                    |                    |
|-------------------------------|--------------------|--------------------|
| Government grants & subsidies | 230 306 066        | 211 426 085        |
| Fines, Penalties and Forfeits | 3 687 670          | 2 895 053          |
|                               | <b>308 102 067</b> | <b>326 244 993</b> |

### 20. Service charges

|                     |                    |                    |
|---------------------|--------------------|--------------------|
| Sale of electricity | 231 427 405        | 214 756 819        |
| Solid waste         | 8 099 544          | -                  |
| Refuse removal      | -                  | 6 619 684          |
|                     | <b>239 526 949</b> | <b>221 376 503</b> |

### 21. Rental of facilities and equipment

#### Facilities and equipment

|                      |         |         |
|----------------------|---------|---------|
| Rental of facilities | 197 318 | 203 212 |
|----------------------|---------|---------|

### 22. Investment revenue

#### Interest revenue

|      |           |         |
|------|-----------|---------|
| Bank | 1 696 440 | 444 883 |
|------|-----------|---------|

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|------------------------------------|-------------------|--------------------|
| <b>23. Property rates</b>          |                   |                    |
| <b>Rates received</b>              |                   |                    |
| Residential                        | (10 224 546)      | 91 189 708         |
| Commercial                         | 16 768 004        | -                  |
| State                              | (72 825)          | -                  |
| Small holdings and farms           | 13 714 472        | -                  |
| Public Benefit Organisations       | 27 688 489        | -                  |
| Less: Income forgone               | -                 | (2 234 087)        |
|                                    | 47 873 594        | 88 955 621         |
| Property rates - penalties imposed | 22 159 970        | 18 608 707         |
|                                    | <b>70 033 564</b> | <b>107 564 328</b> |

### Valuations

|                               |                      |                      |
|-------------------------------|----------------------|----------------------|
| Residential                   | 1 937 333 500        | 1 926 264 500        |
| Commercial                    | 996 496 000          | 958 746 000          |
| State                         | 1 020 238 000        | 1 050 238 000        |
| Municipal                     | 199 152 000          | 202 077 000          |
| Small holdings and farms      | 1 156 164 000        | 1 087 796 000        |
| Public Benefit                | 74 259 000           | 74 259 000           |
| Communal Land                 | 378 069 000          | 445 087 000          |
| NEMA                          | 350 000 000          | 350 000 000          |
| Public Service Infrastructure | 544 458 000          | 274 458 000          |
|                               | <b>6 656 169 500</b> | <b>6 368 925 500</b> |

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2012. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The new general valuation will be implemented on 01 July 2017.

Rates will be due and payable in 12 equal or near instalments. Any rates that are not paid on the due dates will be subject to interest at the rate of prime plus one percent per annum.

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|------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>24. Government grants and subsidies</b>                                                                                   |                    |                    |
| <b>Operating grants</b>                                                                                                      |                    |                    |
| Equitable share                                                                                                              | 160 320 373        | 143 450 000        |
| EPWP Grant                                                                                                                   | 1 387 000          | 4 606 937          |
| Government grant (operating) 2                                                                                               | 277 935            | -                  |
| Work Study Grant                                                                                                             | -                  | 679 750            |
| Demarcation Grant                                                                                                            | 5 760 676          | 5 184 989          |
| FMG Grant                                                                                                                    | 3 621 865          | 3 692 525          |
| Library Grant                                                                                                                | -                  | 5 238 881          |
| Department of Housing Grant                                                                                                  | -                  | 1 416 441          |
| Mesuem Grant                                                                                                                 | 6 229 695          | 890 159            |
| Scheme Support Grant                                                                                                         | -                  | 893 299            |
| By-Laws Grant                                                                                                                | -                  | 187 702            |
| Record Management Grant                                                                                                      | -                  | 197 200            |
| Massification Grant                                                                                                          | 1 549 500          | -                  |
| Sports Grant                                                                                                                 | 3 912              | -                  |
| NYDA                                                                                                                         | 206 110            | -                  |
|                                                                                                                              | <b>179 357 066</b> | <b>166 437 883</b> |
| <b>Capital grants</b>                                                                                                        |                    |                    |
| INEP Grant                                                                                                                   | 14 000 000         | 6 712 202          |
| MIG Grant                                                                                                                    | 36 949 000         | 38 276 000         |
|                                                                                                                              | <b>50 949 000</b>  | <b>44 988 202</b>  |
|                                                                                                                              | <b>230 306 066</b> | <b>211 426 085</b> |
| <b>Equitable Share</b>                                                                                                       |                    |                    |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. |                    |                    |
| <b>Dermarcation Grant</b>                                                                                                    |                    |                    |
| Balance unspent at beginning of year                                                                                         | 5 426 400          | 2 328 390          |
| Current-year receipts                                                                                                        | -                  | 8 283 000          |
| Conditions met - transferred to revenue                                                                                      | -                  | (5 184 990)        |
| Adjustment                                                                                                                   | (5 426 400)        | -                  |
|                                                                                                                              | -                  | <b>5 426 400</b>   |
| Conditions still to be met - remain liabilities (see note 13).                                                               |                    |                    |
| <b>Small Town Cogta Grant</b>                                                                                                |                    |                    |
| Balance unspent at beginning of year                                                                                         | 1 908 205          | 1 908 205          |
| Conditions met - transferred to revenue                                                                                      | (277 935)          | -                  |
|                                                                                                                              | <b>1 630 270</b>   | <b>1 908 205</b>   |
| Conditions still to be met - remain liabilities (see note 13).                                                               |                    |                    |
| <b>FMG Grant</b>                                                                                                             |                    |                    |
| Balance unspent at beginning of year                                                                                         | 822 898            | 915 424            |
| Current-year receipts                                                                                                        | 3 670 000          | 3 600 000          |
| Conditions met - transferred to revenue                                                                                      | (3 621 865)        | (3 692 526)        |
| Adjustment                                                                                                                   | (822 898)          | -                  |
|                                                                                                                              | <b>48 135</b>      | <b>822 898</b>     |

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| Figures in Rand                                                | 2019           | 2018             |
|----------------------------------------------------------------|----------------|------------------|
| <b>24. Government grants and subsidies (continued)</b>         |                |                  |
| Conditions still to be met - remain liabilities (see note 13). |                |                  |
| <b>INEP Grant</b>                                              |                |                  |
| Balance unspent at beginning of year                           | 6 983 074      | 1 220 565        |
| Current-year receipts                                          | 14 000 000     | 15 000 000       |
| Conditions met - transferred to revenue                        | (13 830 444)   | (6 712 202)      |
| Adjustment                                                     | (6 983 074)    | (2 525 289)      |
|                                                                | <b>169 556</b> | <b>6 983 074</b> |
| Conditions still to be met - remain liabilities (see note 13). |                |                  |
| <b>MIG Grant</b>                                               |                |                  |
| Balance unspent at beginning of year                           | -              | 3 267 817        |
| Current-year receipts                                          | 36 949 000     | 38 276 000       |
| Conditions met - transferred to revenue                        | (36 949 000)   | (38 530 292)     |
| Other                                                          | -              | (3 013 525)      |
|                                                                | -              | -                |
| Conditions still to be met - remain liabilities (see note 13). |                |                  |
| <b>Infrastructure Sports Facility</b>                          |                |                  |
| Balance unspent at beginning of year                           | 1 912          | 1 912            |
| Conditions still to be met - remain liabilities (see note 13). |                |                  |
| <b>By Laws Grant</b>                                           |                |                  |
| Balance unspent at beginning of year                           | -              | 200 000          |
| Transfer to all other COGTA grants as per SCOA segment         | -              | (200 000)        |
|                                                                | -              | -                |
| Conditions still to be met - remain liabilities (see note 13). |                |                  |
| <b>Work Study Grant</b>                                        |                |                  |
| Balance unspent at beginning of year                           | -              | 679 750          |
| Other                                                          | -              | (679 750)        |
|                                                                | -              | -                |
| Conditions still to be met - remain liabilities (see note 13). |                |                  |
| <b>Scheme Support Grant</b>                                    |                |                  |
| Balance unspent at beginning of year                           | -              | 1 000 000        |
| Other                                                          | -              | (1 000 000)      |
|                                                                | -              | -                |
| Conditions still to be met - remain liabilities (see note 13). |                |                  |
| <b>Records Management</b>                                      |                |                  |

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| Figures in Rand                                                | 2019           | 2018           |
|----------------------------------------------------------------|----------------|----------------|
| <b>24. Government grants and subsidies (continued)</b>         |                |                |
| Balance unspent at beginning of year                           | -              | 200 000        |
| Other                                                          | -              | (200 000)      |
|                                                                | -              | -              |
| Conditions still to be met - remain liabilities (see note 13). |                |                |
| <b>IDP Grant</b>                                               |                |                |
| Balance unspent at beginning of year                           | -              | 12 770         |
| Other                                                          | -              | (12 770)       |
|                                                                | -              | -              |
| Conditions still to be met - remain liabilities (see note 13). |                |                |
| <b>Library Grant</b>                                           |                |                |
| Balance unspent at beginning of year                           | 847 267        | 3 191 307      |
| Current-year receipts                                          | -              | 3 785 000      |
| Conditions met - transferred to revenue                        | -              | (6 129 040)    |
|                                                                | <b>847 267</b> | <b>847 267</b> |
| Conditions still to be met - remain liabilities (see note 13). |                |                |
| <b>EPWP</b>                                                    |                |                |
| Balance unspent at beginning of year                           | -              | 582 831        |
| Current-year receipts                                          | -              | 5 133 000      |
| Conditions met - transferred to revenue                        | -              | (5 191 188)    |
| Other                                                          | -              | (524 643)      |
|                                                                | -              | -              |
| Conditions still to be met - remain liabilities (see note 13). |                |                |
| <b>NYDA Grant</b>                                              |                |                |
| Balance unspent at beginning of year                           | 216 027        | 216 027        |
| Conditions met - transferred to revenue                        | (206 110)      | -              |
|                                                                | <b>9 917</b>   | <b>216 027</b> |
| Conditions still to be met - remain liabilities (see note 13). |                |                |
| <b>Good Governance Grant</b>                                   |                |                |
| Balance unspent at beginning of year                           | -              | 84 547         |
| Other                                                          | -              | (84 547)       |
|                                                                | -              | -              |
| Conditions still to be met - remain liabilities (see note 13). |                |                |
| <b>Department of Housing Grant</b>                             |                |                |
| Balance unspent at beginning of year                           | 32 400         | -              |
| Current-year receipts                                          | -              | 1 448 841      |

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| Figures in Rand                                        | 2019          | 2018          |
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| <b>24. Government grants and subsidies (continued)</b> |               |               |
| Conditions met - transferred to revenue                | -             | (1 416 441)   |
|                                                        | <b>32 400</b> | <b>32 400</b> |

Conditions still to be met - remain liabilities (see note 13).

### Sports Grant

|                                         |               |   |
|-----------------------------------------|---------------|---|
| Current-year receipts                   | 50 000        | - |
| Conditions met - transferred to revenue | (3 912)       | - |
|                                         | <b>46 088</b> | - |

Conditions still to be met - remain liabilities (see note 13).

### MSIG

|                       |           |   |
|-----------------------|-----------|---|
| Current-year receipts | 1 055 000 | - |
|-----------------------|-----------|---|

Conditions still to be met - remain liabilities (see note 13).

### Town Planning Grant

|                       |           |   |
|-----------------------|-----------|---|
| Current-year receipts | 1 500 000 | - |
|-----------------------|-----------|---|

Conditions still to be met - remain liabilities (see note 13).

### LED Grant

|                                         |                |   |
|-----------------------------------------|----------------|---|
| Current-year receipts                   | 400 000        | - |
| Conditions met - transferred to revenue | (49 500)       | - |
|                                         | <b>350 500</b> | - |

Conditions still to be met - remain liabilities (see note 13).



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| <b>25. Employee related costs</b>                                  |                    |                    |
| Basic                                                              | 126 917 764        | 116 078 564        |
| Bonus                                                              | 9 872 154          | 8 617 411          |
| Medical aid - company contributions                                | 5 580 829          | 7 000 845          |
| UIF                                                                | 1 068 769          | 1 038 134          |
| WCA                                                                | -                  | 66                 |
| SDL                                                                | 1 671 751          | 1 412 451          |
| Leave pay provision charge                                         | 669 161            | (490 455)          |
| Travel, motor car, accommodation, subsistence and other allowances | 367 122            | 9 020 921          |
| Overtime payments                                                  | 3 779 483          | 7 376 411          |
| Long-service awards                                                | 468 471            | 480 576            |
| Acting allowances                                                  | 239 606            | 615 154            |
| Car allowance                                                      | 4 951 737          | -                  |
| Housing benefits and allowances                                    | 677 051            | 559 003            |
| Cell Phone Allowance                                               | 335 946            | 545 669            |
| Pension Fund                                                       | 18 175 252         | 15 861 708         |
| Group Life                                                         | 1 943 901          | 1 311 914          |
| Other Allowances                                                   | 1 519 487          | 121 425            |
|                                                                    | <b>178 238 484</b> | <b>169 549 797</b> |

### Remuneration of municipal manager - Mr. P S Mkhize

|                                                 |                  |                |
|-------------------------------------------------|------------------|----------------|
| Annual Remuneration                             | 647 651          | 551 768        |
| Car Allowance                                   | 240 000          | 160 000        |
| Contributions to UIF, Medical and Pension Funds | 1 785            | 1 256          |
| Housing Allowance                               | 180 000          | -              |
| Cellphone                                       | 10 000           | -              |
| Subsistence and Travel                          | 24 026           | -              |
| Skill and BC levy                               | 10 468           | -              |
|                                                 | <b>1 113 930</b> | <b>713 024</b> |

The Municipal Manager was provided with two full-time body guards.

### Remuneration of chief finance officer - Mr. S P Radebe

|                                                 |                |                |
|-------------------------------------------------|----------------|----------------|
| Annual Remuneration                             | 584 713        | 584 713        |
| Car Allowance                                   | 194 904        | 194 904        |
| Contributions to UIF, Medical and Pension Funds | 1 785          | 1 785          |
| Cellphone Allowances                            | 17 277         | 23 190         |
| Subsistence ad Travel                           | 24 650         | -              |
| Skills and BC Levy                              | 7 747          | -              |
|                                                 | <b>831 076</b> | <b>804 592</b> |

The Chief Financial Officer was provided with one full-time body guard.

### Remuneration of GM Civil - S R Zwane

|                                                 |                |                |
|-------------------------------------------------|----------------|----------------|
| Annual Remuneration                             | 588 305        | 391 098        |
| Car Allowance                                   | 180 000        | 119 932        |
| Contributions to UIF, Medical and Pension Funds | 1 785          | 2 900          |
| Cellphone Allowance                             | 17 750         | 9 991          |
| Skill levy                                      | 7 500          | -              |
|                                                 | <b>795 340</b> | <b>523 921</b> |

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### 25. Employee related costs (continued)

#### Remuneration of GM Community - Mrs. Z M Ndlela

|                                                 |                |                |
|-------------------------------------------------|----------------|----------------|
| Annual Remuneration                             | 614 523        | 663 685        |
| Car Allowance                                   | 165 096        | 165 096        |
| Contributions to UIF, Medical and Pension Funds | 1 785          | 1 785          |
| Cellphone Allowance                             | 17 277         | 23 190         |
| Subsistence and Travel                          | 16 196         | -              |
| Skill and BC levy                               | 6 879          | -              |
|                                                 | <b>821 756</b> | <b>853 756</b> |

The General Manager - Community was provided with one full-time body guard.

#### Remuneration of GM Corporate - Mr. H B Chotoo

|                                                 |                  |                  |
|-------------------------------------------------|------------------|------------------|
| Annual Remuneration                             | 621 015          | 621 015          |
| Car Allowance                                   | 310 508          | 375 634          |
| Contributions to UIF, Medical and Pension Funds | 1 785            | 1 785            |
| Cellphone Allowance                             | 17 745           | 4 856            |
| Housing Allowance                               | 72 452           | -                |
| Skill and BC levy                               | 9 612            | -                |
| Subsistence and Travel                          | 1 073            | -                |
|                                                 | <b>1 034 190</b> | <b>1 003 290</b> |

The Director Corporate Services was provided with two full-time body guards.

#### Remuneration of GM Development Planning - Mr. E H DLADLA

|                                                 |   |                |
|-------------------------------------------------|---|----------------|
| Annual Remuneration                             | - | 490 095        |
| Car Allowance                                   | - | 125 035        |
| Contributions to UIF, Medical and Pension Funds | - | 7 556          |
|                                                 | - | <b>622 686</b> |

The Director Development Planning post was vacant since 1 March 2018. The General Manager - Planning was provided with two full-time body guard.

### 26. Remuneration of councillors

|                      |                   |                   |
|----------------------|-------------------|-------------------|
| Mayor                | 783 511           | 758 012           |
| Deputy Mayor         | 636 357           | 649 308           |
| EXCO Members         | 2 488 744         | 2 031 816         |
| Speaker              | 636 884           | 630 878           |
| Ordinary Councillors | 8 624 837         | 8 834 945         |
| MPAC Chairperson     | 623 599           | 620 841           |
| Chief Whip           | 589 623           | 592 977           |
|                      | <b>14 383 555</b> | <b>14 118 777</b> |

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|-----------------|------|------|
|-----------------|------|------|

### 26. Remuneration of councillors (continued)

#### In-kind benefits

The Mayor, Deputy Mayor, Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has 9 full-time bodyguards. The Deputy Mayor has 5 full-time bodyguards. The Speaker has 3 full-time bodyguards. The Chief Whip has 2 full-time bodyguards and 1 night security officer at his residence. The MPAC Chairperson has 1 full-time bodyguard.

### 27. Depreciation and amortisation

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | 51 524 023        | 37 159 055        |
| Investment property           | -                 | 93 004            |
| Intangible assets             | -                 | 25 720            |
|                               | <b>51 524 023</b> | <b>37 277 779</b> |

### 28. Finance costs

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Non-current borrowings   | 398 587          | -                |
| Trade and other payables | 2 585 516        | -                |
| Finance leases           | 2 437 202        | 540 731          |
| Current borrowings       | -                | 1 180 493        |
| Other interest paid      | -                | 3 148 277        |
|                          | <b>5 421 305</b> | <b>4 869 501</b> |

The interest expense on finance leases has been calculated at an effective interest rate on the present value of the minimum lease payments

### 29. Debt impairment

|                                            |             |            |
|--------------------------------------------|-------------|------------|
| Contributions to debt impairment provision | 143 041 269 | 68 982 623 |
|--------------------------------------------|-------------|------------|

### 30. Bulk purchases

|             |             |             |
|-------------|-------------|-------------|
| Electricity | 156 754 445 | 168 853 164 |
|-------------|-------------|-------------|

### 31. Contracted services

#### Presented previously

|                  |         |           |
|------------------|---------|-----------|
| Operating Leases | 856 119 | 3 810 165 |
|------------------|---------|-----------|

#### Outsourced Services

|                                     |            |            |
|-------------------------------------|------------|------------|
| Administrative and Support Staff    | 189 980    | 189 780    |
| Clearing and Grass Cutting Services | 152 341    | -          |
| Security Services                   | 27 671 551 | 38 893 911 |
| Drivers Licence Cards               | 451 801    | -          |

#### Consultants and Professional Services

|                             |           |           |
|-----------------------------|-----------|-----------|
| Business and Advisory       | 6 146 199 | 1 449 190 |
| Infrastructure and Planning | -         | 2 885 780 |
| Legal Cost                  | 3 592 835 | 3 145 936 |

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## Notes to the Annual Financial Statements

| Figures in Rand                                    | 2019              | 2018              |
|----------------------------------------------------|-------------------|-------------------|
| <b>31. Contracted services (continued)</b>         |                   |                   |
| <b>Contractors</b>                                 |                   |                   |
| Electrical                                         | (68 663)          | 27 323            |
| Maintenance of Buildings and Facilities            | 3 812 785         | 2 467 623         |
| Maintenance of Equipment                           | 6 131 713         | 3 610 669         |
| Pest Control and Fumigation                        | 289 803           | -                 |
| Preservation/Restoration/Dismantling/Cleaning Serv | 428 266           | -                 |
| Tracing Agents and Debt Collectors                 | 9 420 714         | 2 464 207         |
|                                                    | <b>59 075 444</b> | <b>58 944 584</b> |
| <b>32. General expenses</b>                        |                   |                   |
| Advertising                                        | 657 444           | 1 387 712         |
| Auditors remuneration                              | 6 114 262         | 3 464 521         |
| Bank charges                                       | 603 878           | 666 575           |
| Cleaning                                           | 322 546           | 197 300           |
| Consumables                                        | 7 325 990         | 11 333 578        |
| Donations                                          | -                 | 215 750           |
| Entertainment                                      | 13 058            | 90 422            |
| Insurance                                          | 1 774 242         | 1 641 123         |
| Conferences and seminars                           | 449 767           | 27 626            |
| IT expenses                                        | 1 303 758         | 602 183           |
| Motor vehicle expenses                             | 476 300           | 391 686           |
| Fuel and oil                                       | 4 494 951         | 5 275 974         |
| Postage and courier                                | 209 571           | 145 456           |
| Printing and stationery                            | 350 533           | 1 166 506         |
| Subscriptions and membership fees                  | -                 | 20 163            |
| Telephone and fax                                  | 2 288 222         | 2 661 531         |
| Training                                           | 123 037           | 5 865             |
| Travel - local                                     | 64 713            | -                 |
| Utilities - Other                                  | 6 847 216         | -                 |
| Uniforms                                           | 1 057 354         | 518 176           |
| Amakhosi                                           | -                 | 214 829           |
| Land Fill Site Provision                           | 386 845           | -                 |
| Other General Expenses                             | 5 877 482         | 1 348 627         |
|                                                    | <b>40 741 169</b> | <b>31 375 603</b> |
| <b>33. Auditors' remuneration</b>                  |                   |                   |
| Auditor General Fees                               | 3 563 568         | 3 095 169         |
| Internal Audit Fees                                | 1 035 000         | 369 352           |
|                                                    | <b>4 598 568</b>  | <b>3 464 521</b>  |

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| Figures in Rand                                        | 2019               | 2018              |
|--------------------------------------------------------|--------------------|-------------------|
| <b>34. Cash generated from operations</b>              |                    |                   |
| (Deficit) surplus                                      | (108 499 314)      | 41 100 207        |
| <b>Adjustments for:</b>                                |                    |                   |
| Depreciation and amortisation                          | 51 524 023         | 42 707 746        |
| Finance costs - Finance leases                         | 5 421 305          | 4 869 501         |
| Debt impairment                                        | 143 041 269        | 12 078 323        |
| Bad debts written off                                  | 4 566 273          | -                 |
| Movements in retirement benefit assets and liabilities | (3 529 208)        | -                 |
| Movements in provisions                                | (928 810)          | (64 111)          |
| <b>Changes in working capital:</b>                     |                    |                   |
| Inventories                                            | 33 222 531         | (2 871 056)       |
| Receivables from exchange transactions                 | 77 765 570         | (87 189 096)      |
| Other receivables from non-exchange transactions       | (23 393 361)       | (4 675 470)       |
| Payables from exchange transactions                    | 15 044 860         | 56 442 950        |
| VAT                                                    | 60 791 281         | (12 399 287)      |
| Unspent conditional grants and receipts                | (9 601 690)        | 947 754           |
| Consumer deposits                                      | 108 049            | 1 427 244         |
|                                                        | <b>245 532 778</b> | <b>52 374 705</b> |
| <b>35. Commitments</b>                                 |                    |                   |
| <b>Authorised capital expenditure</b>                  |                    |                   |
| <b>Already contracted for but not provided for</b>     |                    |                   |
| • Property, plant and equipment                        | 26 734 122         | 69 999 222        |
| <b>Total capital commitments</b>                       |                    |                   |
| Already contracted for but not provided for            | 26 734 122         | 69 999 222        |
| <b>Authorised operational expenditure</b>              |                    |                   |
| <b>Already contracted for but not provided for</b>     |                    |                   |
| • Financial System MUNSOFT                             | 1 079 475          | 2 428 800         |
| • Annual Financial Statements - MUNSOFT                | -                  | 1 587 682         |
| • Other commitments                                    | 4 032 019          | 1 736 475         |
| • Fixed Assets Register - Quartex JV Dash Consulting   | -                  | 1 820 181         |
| • Valuation Roll - Ndlala Mass Valuations              | -                  | 1 066 581         |
| • Annual Financial Statements - Bonakude Consulting    | 1 308 761          | -                 |
| • Fixed Asset Register - Bonakude Consulting           | 2 171 849          | -                 |
|                                                        | <b>8 592 104</b>   | <b>8 639 719</b>  |
| <b>Total operational commitments</b>                   |                    |                   |
| Already contracted for but not provided for            | 8 592 104          | 8 639 719         |

This committed expenditure relates to plant and equipment and will be financed by available grant revenue.

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## Notes to the Annual Financial Statements

| Figures in Rand                                                 | 2019              | 2018              |
|-----------------------------------------------------------------|-------------------|-------------------|
| <b>36. Contingencies</b>                                        |                   |                   |
| <b>Summary of Litigations</b>                                   |                   |                   |
| Carlos Miranda Attorney                                         | 650 204           | -                 |
| Land dispute Sifiso Douglas Khanyile                            | 15 000 000        | -                 |
| Non payment of pension contributions Natal Joint Pension Fund   | 2 478 407         | -                 |
| Contractual dispute Nonjiko Security Services CC                | 851 915           | -                 |
| Contractual Dispute Ngomfo Distributor (Pty)LTD                 | 16 369 722        | -                 |
| Interest Claim Natal Joint Pension Fund                         | 1 502 453         | -                 |
| Labour Dispute Ngcobo, Masango and others                       | 444 841           | -                 |
| Vehicle lease agreement RSI Vehicle Hire                        | 87 443            | -                 |
| Breach of contract TL Engineering Consultants CC                | 11 096 803        | -                 |
| Non-Payment of invoices to various suppliers                    | 15 972 785        | 23 494 639        |
| Termination of Tender Agreements - Nonjiko Security Services CC | -                 | 1 526 258         |
| Breach of employment contract - TO Vilakazi                     | -                 | 4 500 000         |
| Damage to property                                              | -                 | 140 816           |
| Fines Imposed to Department of Labour                           | -                 | 1 500 000         |
| Incorrect payment of Grants                                     | -                 | 2 478 407         |
| CCMA - Enforced award - Nhlanhla Alvis Masango and 1 other      | -                 | 456 584           |
| Termination of Contract - Ngomfo security                       | -                 | 16 519 072        |
| Legal Costs/ Taxation                                           | -                 | 243 247           |
| Pothole Claims                                                  | 43 374            | 42 532            |
| Recovery of Overpayment - Department of Public Works            | -                 | 18 300 000        |
|                                                                 | <b>64 497 947</b> | <b>69 201 555</b> |

## 37. Prior-year adjustments

Presented below are those items contained in the statement of financial position, that have been affected by prior-year adjustments:

### Statement of financial position

#### 2018

|                                                          | Note | As previously reported | Correction of error | Re-classification | Restated               |
|----------------------------------------------------------|------|------------------------|---------------------|-------------------|------------------------|
| Property Plant and Equipment                             | 3    | 758 893 685            | (24 873 855)        | -                 | 734 019 830            |
| VAT Receivable                                           | 10   | 12 948 102             | 24 619 243          | (16 443 399)      | 21 123 946             |
| Impairment loss                                          | 9    | 3 595 594              | 57 468 741          | -                 | 61 064 335             |
| Receivables from non exchange                            | 9    | 128 206 179            | (57 468 741)        | -                 | 70 737 438             |
| Provision for Landfill Site                              | 15   | (26 555 835)           | (1 169 850)         | -                 | 27 725 685             |
| Employee Benefit Obligation                              | 6    | (33 060 000)           | 7 437 000           | -                 | 25 623 000             |
| Trade payables                                           | 16   | (137 284 991)          | -                   | 16 443 399        | (120 841 592)          |
| Provision for debt impairment from exchange transactions | 8    | 19 194 905             | 9 602 672           | -                 | 28 797 577             |
| Receivables from exchange transactions                   | 8    | 125 371 416            | (9 602 672)         | -                 | 115 768 744            |
| Accumulated Surplus                                      |      | 837 757 820            | (2 321 894)         | -                 | 831 765 867            |
| Retention                                                | 16   | (4 913 611)            | (1 985 022)         | -                 | (6 898 633)            |
| Work in progress                                         | 3    | 111 723 980            | 1 985 022           | -                 | 113 709 002            |
| Finance Lease Obligation                                 | 12   | (3 660 329)            | (20 585)            | -                 | (3 680 914)            |
| Unspent conditional grant                                | 13   | (16 757 299)           | (3 670 059)         | -                 | (20 427 358)           |
|                                                          |      | <b>1 775 459 616</b>   | <b>-</b>            |                   | <b>- 1 878 486 927</b> |

### Errors

#### Property Plant and Equipment

# Inkosi Langalibalele Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand                                                                                                                               | 2019                   | 2018 |
|-----------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------|
| <b>37. Prior-year adjustments (continued)</b>                                                                                                 |                        |      |
| <b>Balance previously reported</b>                                                                                                            | 758 893 685,00         |      |
| Completed assets were incorrectly included in assets under construction with incorrect amounts and did not reconcile to underlying documents. | (24 873 854,84)        |      |
| <b>Re-Stated Balance</b>                                                                                                                      | <b>734 019 830,16</b>  |      |
| <b>Reveivable from non exchange</b>                                                                                                           |                        |      |
| <b>Balance previously reported</b>                                                                                                            | 128 206 179,00         |      |
| Debt impairment decreasing the receivable amount                                                                                              | (57 468 741,00)        |      |
| <b>Restated Balance</b>                                                                                                                       | <b>70 737 438,00</b>   |      |
| <b>VAT Receivable</b>                                                                                                                         |                        |      |
| <b>Balance previously reported</b>                                                                                                            | 12 948 102,00          |      |
| Re classification from payables                                                                                                               | (16 443 399,00)        |      |
| Correction of material variances between the submitted VAT returns and the general ledger                                                     | 24 619 242,64          |      |
| <b>Restated Balance</b>                                                                                                                       | <b>21 123 945,64</b>   |      |
| <b>Trade and payables from exchange transactions</b>                                                                                          |                        |      |
| <b>Balance previously reported</b>                                                                                                            | 137 284 991,00         |      |
| Re classification from VAT                                                                                                                    | (16 443 399,00)        |      |
| <b>Restated Balance</b>                                                                                                                       | <b>120 841 592,00</b>  |      |
| <b>Debt Impairment</b>                                                                                                                        |                        |      |
| <b>Balance previously reported</b>                                                                                                            | 3 595 594,00           |      |
| Correcting the misstatement on the calculation of debt impairment                                                                             | 57 468 741,00          |      |
| <b>Restated Balance</b>                                                                                                                       | <b>61 064 335,00</b>   |      |
| <b>Provision for debt impairment from exchange transaction</b>                                                                                |                        |      |
| <b>Balance previously reported</b>                                                                                                            | 19 194 905,00          |      |
| Correcting the misstatement on the calculation of debt impairment                                                                             | 9 602 672,00           |      |
| <b>Restated Balance</b>                                                                                                                       | <b>28 797 577,00</b>   |      |
| <b>Receivable from exchange transactions</b>                                                                                                  |                        |      |
| <b>Balance previously reported</b>                                                                                                            | 125 371 416,00         |      |
| Debt impairment decreasing the receivable amount                                                                                              | (9 602 672,00)         |      |
| <b>Restated Balance</b>                                                                                                                       | <b>115 768 744,00</b>  |      |
| <b>Provision for landfill site</b>                                                                                                            |                        |      |
| <b>Balance previously reported</b>                                                                                                            | (26 555 835,00)        |      |
| Correcting the provision for landfill site using the correct discount rate                                                                    | (1 169 850,00)         |      |
| <b>Restated Balance</b>                                                                                                                       | <b>(27 725 685,00)</b> |      |
| <b>Employee Benefit Obligation</b>                                                                                                            |                        |      |
| <b>Balance previously reported</b>                                                                                                            | (33 060 000,00)        |      |
| Correction of misstated employee benefit obligation                                                                                           | 7 437 000,00           |      |
| Accruals for June 2017 Salary not raised                                                                                                      | -                      |      |
| <b>Restated Balance</b>                                                                                                                       | <b>(25 623 000,00)</b> |      |
| <b>Retention</b>                                                                                                                              |                        |      |
| <b>Balance previously reported</b>                                                                                                            | (4 913 611,00)         |      |
| Retention not accounted in the 2017/18 Financial Year end                                                                                     | (1 985 021,77)         |      |
| <b>Restated Balance</b>                                                                                                                       | <b>(6 898 632,77)</b>  |      |
| <b>Work In Progress</b>                                                                                                                       |                        |      |
| <b>Balance previously reported</b>                                                                                                            | 111 723 980,00         |      |
| Retention not accounted in the 2017/18 Financial Year end                                                                                     | 1 985 021,77           |      |

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| Figures in Rand                                                                                                                                                                                                             | 2019                    | 2018 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------|
| <b>37. Prior-year adjustments (continued)</b>                                                                                                                                                                               |                         |      |
| <b>Restated Balance</b>                                                                                                                                                                                                     | <b>113 709 001,77</b>   |      |
| <b>Finance Lease Obligation</b>                                                                                                                                                                                             |                         |      |
| <b>Balance previously reported</b>                                                                                                                                                                                          | (3 660 329,00)          |      |
| Adjusting lease liability incorrectly reduced                                                                                                                                                                               | (20 585,35)             |      |
| <b>Restated Balance</b>                                                                                                                                                                                                     | <b>(3 680 914,35)</b>   |      |
| <b>Accumulated Surplus</b>                                                                                                                                                                                                  |                         |      |
| <b>Balance previously reported</b>                                                                                                                                                                                          | (837 757 820,00)        |      |
| Correcting employee benefit cost that was misstated                                                                                                                                                                         | 7 437 000,00            |      |
| Landfill site provision                                                                                                                                                                                                     | (1 169 850,00)          |      |
| PPE correction                                                                                                                                                                                                              | 24 873 854,84           |      |
| VAT correction                                                                                                                                                                                                              | (24 619 243,00)         |      |
| Correction of finance lease obligation                                                                                                                                                                                      | 20 585,00               |      |
| Housing development grant                                                                                                                                                                                                   | 3 670 059,00            |      |
| <b>Restated Balance</b>                                                                                                                                                                                                     | <b>(827 545 414,16)</b> |      |
| <b>38. Risk management</b>                                                                                                                                                                                                  |                         |      |
| <b>Financial risk management</b>                                                                                                                                                                                            |                         |      |
| The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. |                         |      |
| The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.                        |                         |      |
| <b>Liquidity risk</b>                                                                                                                                                                                                       |                         |      |
| The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.         |                         |      |
| Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.                                                                                                                                  |                         |      |
| The liquidity ratio is outlined below. The Municipality had a current ratio of 1.32:1 as at 30 June 2018 and 1.19:1 as at 30 June 2019                                                                                      |                         |      |
| <b>Financial Instruments</b>                                                                                                                                                                                                | <b>2019</b>             |      |
| Current Assets                                                                                                                                                                                                              | 503 436 941             |      |
| Current Liabilities                                                                                                                                                                                                         | (420 069 297)           |      |
|                                                                                                                                                                                                                             | <b>83 367 644</b>       |      |



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## Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

### 38. Risk management (continued)

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument                         | 2019        | 2018        |
|----------------------------------------------|-------------|-------------|
| Cash and Cash Equivalents                    | 192 017 520 | 5 924 806   |
| Receivables from Non - Exchange Transactions | 162 132 511 | 129 520 005 |
| Receivables from Exchange Transactions       | 133 561 900 | 119 867 740 |

#### Market risk

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

At 30 June 2019, financial instruments exposed to interest rate risk were call and notice deposits.

### 39. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 753 226 189 and that the municipality's total assets exceed its liabilities by R 753 226 189.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to implement debt collection and cost containment measures to fund the ongoing operations for the municipality will remain in force for so long as it takes to restore the solvency of the municipality. The municipality is also under administration in terms of Section 139 of the Constitution and Section 137 of the MFMA which was initiated by COGTA to assist the Municipality with its improvement of cashflow.

### 40. Unauthorised expenditure

|                          |                   |                   |
|--------------------------|-------------------|-------------------|
| Opening Balance          | 60 269 761        | 42 179 998        |
| Current year expenditure | 6 285 910         | 18 089 763        |
|                          | <b>66 555 671</b> | <b>60 269 761</b> |

The opening balance unauthorised expenditure is a combination of both the former Umtshezi and Imbabazane Municipalities. The current year unauthorised expenditure will be investigated. Once the investigation is completed a report will be tabled to council for action or condonement.

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## Notes to the Annual Financial Statements

| Figures in Rand                                 | 2019              | 2018              |
|-------------------------------------------------|-------------------|-------------------|
| <b>41. Fruitless and wasteful expenditure</b>   |                   |                   |
| Fruitless and wasteful expenditure              | 33 775 785        | 31 606 041        |
| Fruitless and wasteful expenditure current year | 1 778 974         | 5 056 845         |
|                                                 | <b>35 554 759</b> | <b>36 662 886</b> |

The opening balance fruitless and wasteful expenditure is a combination of both the former Umtshezi and Imbabazane Municipalities. A report will be tabled to council for condonment.

The total fruitless and wasteful expenditure for the current period was reported to MANCO and EXCO for noting. A report will be table to council and national treasury for approval. The current year fruitless and wasteful expenditure was incurred for interest on overdue accounts.

### 42. Irregular expenditure

|                                           |                    |                    |
|-------------------------------------------|--------------------|--------------------|
| Opening balance                           | 249 036 994        | 200 927 535        |
| Add: Irregular Expenditure - current year | 17 169 459         | 48 109 459         |
|                                           | <b>266 206 453</b> | <b>249 036 994</b> |

### 43. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Opening balance                 | 1 855 550        | 562 300          |
| Current year subscription / fee | 1 517 136        | 1 293 250        |
|                                 | <b>3 372 686</b> | <b>1 855 550</b> |

#### Audit fees

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Opening balance                 | 2 458 570        | 3 382 551        |
| Current year subscription / fee | 3 563 568        | 2 458 570        |
| Amount paid - current year      | (4 781 792)      | (3 382 551)      |
|                                 | <b>1 240 346</b> | <b>2 458 570</b> |

The balance of the Audit fees will be settled in the 2018/2019 Financial year. This expenditure was accrued within trade and other payables.

#### PAYE and UIF

|                                 |              |              |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | 22 827 684   | 23 427 320   |
| Amount paid - current year      | (22 827 684) | (23 427 320) |
|                                 | -            | -            |

#### Pension and Medical Aid Deductions

|                                 |              |              |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | 16 946 531   | 11 818 221   |
| Amount paid - current year      | (16 946 531) | (11 818 221) |
|                                 | -            | -            |

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## Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

### 43. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

| 30 June 2019 | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R   |
|--------------|------------------------------------------|------------------------------------------|--------------|
| MT Mvelase   | 689                                      | 37                                       | 726          |
| N Hlongwane  | 1 937                                    | 3 493                                    | 5 430        |
| M Khanyile   | -                                        | 753                                      | 753          |
| N Mvelase    | 200                                      | 1 143                                    | 1 343        |
| E Jacobs     | 23                                       | 58                                       | 81           |
|              | <b>2 849</b>                             | <b>5 484</b>                             | <b>8 333</b> |

| 30 June 2018         | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R    |
|----------------------|------------------------------------------|------------------------------------------|---------------|
| N F Dlangalala       | 925                                      | -                                        | 925           |
| B & N M Hlongwane    | 1 760                                    | 1 237                                    | 2 997         |
| A S Ndlovu           | 1 145                                    | 1 483                                    | 2 628         |
| M T Mvelase          | 39                                       | 1 240                                    | 1 279         |
| N Mvelase            | 179                                      | 4 035                                    | 4 214         |
| M B A & Z M Khanyile | 210                                      | -                                        | 210           |
| P Strydom - Shop 4   | -                                        | 11 645                                   | 11 645        |
|                      | <b>4 258</b>                             | <b>19 640</b>                            | <b>23 898</b> |

### 44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council Meeting and includes a note to the annual financial statements.

Various goods and services were procured during the financial year under review and the process followed in procuring those goods and services deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the who considered them and subsequently approved the deviation from the normal supply chain management regulations. Note 49 & 50 lists the total deviations as at 30 June 2019.

### 45. Deviation from supply chain management regulations less than R 200,000

|                    |           |           |
|--------------------|-----------|-----------|
| Various Deviations | 1 036 124 | 1 257 745 |
|--------------------|-----------|-----------|

# Inkosi Langalibalele Municipality

(Registration number KZN237)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

| Figures in Rand                                                                      | 2019              | 2018             |
|--------------------------------------------------------------------------------------|-------------------|------------------|
| <b>46. Deviation from supply chain management regulations greater than R 200,000</b> |                   |                  |
| <b>Heading</b>                                                                       |                   |                  |
| Sparks and ellis - Provision of uniforms                                             | 249 641           | -                |
| Workwear depot dbn - Provision of uniforms                                           | 268 552           | -                |
| Bell equipment sales - Bell service kit                                              | 346 648           | -                |
| Inzuzo ye-sizwe development consultants - Development of LED strategy                | 362 500           | -                |
| Cyberfox cc - Building plans information system                                      | 494 500           | -                |
| Workwear depot Provision of uniforms                                                 | 502 446           | -                |
| Sparks and ellis - provision of uniforms                                             | 679 708           | -                |
| Babcock - Grader parts                                                               | 716 314           | -                |
| Inzuzo ye-sizwe development consultants - Development of LED strategy                | 943 575           | -                |
| Bell equipment sales - Bell service kit                                              | 1 367 684         | -                |
| Mortimer toyota - Vehicle parts                                                      | 1 431 776         | -                |
| Mortimer toyota - Vehicle parts                                                      | 1 431 776         | -                |
| Hoopers volkswagen - Vehicle parts                                                   | 2 290 225         | -                |
| Cmh commercial - Vehicle parts                                                       | 2 785 414         | -                |
| Jimkhwa security - Security services                                                 | 2 843 183         | -                |
| Jimkhwa security - Security services                                                 | 2 983 689         | -                |
| Jimkhwa security - Security services                                                 | 2 983 689         | -                |
| Khuselani security - Security services                                               | 4 432 554         | -                |
| Khuselani security - Security services                                               | 4 432 554         | -                |
| Khuselani security - Security services                                               | 4 629 920         | -                |
| Hoopers volkswagen - Vehicle parts                                                   | 8 401 568         | -                |
| Ramsey Webbers Inc - Legal Representatives                                           | -                 | 1 000 000        |
| Royal Palm Hotel - Annual Salga Games                                                | -                 | 325 800          |
| Mahambayedwa Trading - Repairs to dumpsite fencing                                   | -                 | 250 000          |
| Quartex Technologies JV Dashing Solutions - Compilation of FAR                       | -                 | 1 820 181        |
|                                                                                      | <b>44 577 916</b> | <b>3 395 981</b> |

### 47. Budget differences

#### Material differences between budget and actual amounts

50.1 - Salaries and Wages - The increase is due to the parity and teh absorption of 154 Contract Staff.

50.2 - Councillr Remuneration - Councillor increments was not approved, therefore the savings.

50.3 - Depreciation - Prior period adjustments to PPE affecetd the Actual Depreciation Calculations.

50.4 - Finance Costs - The Municipality under-budegted on this line item.

50.5 - Debt Impairment - Change in impairment calculations resulted in savings.

50.6 - Bulk Purchases - The Municipality under-budegted on this line item.

50.7 Contracted Services - The line item budget was for security only. Due to AFS disclousres in terms of SCOA, Repairs & Maintenance, and Other Contract expenditure was disclosed in this line item actual expenditure. The Budget for these items was disclosed in General Expenditure. Therefore the over-expenditure.

50.8 - Transfers & Subsidies - The Municipality under-budegted on this line item.

50.9 - General Expenditure - Due to AFS disclousres in terms of SCOA, Repairs & Maintenance, and Other Contract expenditure was disclosed in Contract Services. The Budget for these items was disclosed in General Expenditure. Therefore the savings.